



***MUNICIPAL BOND INDUSTRY PROFESSIONALS
AND THEIR ROLES***



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**CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION
Fundamentals of Debt Financing**

Introduction: The What, Why and How of the Municipal Bond Industry

- What are municipal bonds?
- Why do issuers issue municipal bonds?
- How are municipal bonds sold?
- Disclosure
- Key players in a bond sale and their functions

The Issuer's Team (1)

Issuer: Any entity authorized by the IRS to issue tax-exempt securities (states, countries, cities, school districts and special districts), or a statutory “conduit” issuer such as a redevelopment agency, housing authority or joint powers authority. (Note: taxable bonds may also be issued.)

The Issuer's Team (2)

- Elected Officials: Play a key role in issuer's legal responsibilities.
- Issuer's Finance Officials
 - Director of Finance
 - Treasurer
 - CAO

The Issuer's Team (3)

- Financial Advisor: Assists issuer in formulating and executing a debt-financing plan (consulting firm, investment banking firm or commercial bank).
- Underwriter: Purchases bonds directly and resells them to investors.
 - Placement Agent: Places bonds with one or more private investors.
 - Selling Group Member: Has no direct obligation to the issuer to buy the bonds.

The Issuer's Team (4)

- Non-Government Borrower: Business entity which provides a public service or a qualified not-for-profit entity; in California, issuers are authorized to issue bonds and lend proceeds to one or more of these entities.

The Issuer's Team (5)

- Trustee: Establishes accounts and holds funds related to the debt issue, authenticates bonds, maintains a list of bondholders, pays principal and interest on debt and represents interests of bondholders in the event of default.
 - Fiscal Agent: Takes responsibility for the fiscal duties of an unrelated party.
 - Escrow Agent: Holds and invests bond proceeds in a refunding, to pay refunded bonds.

The Issuer's Team (6)

- Investment/Swap Advisor: Assists issuer in investing bond proceeds or converting fixed rate debt to floating or vice versa via contractual arrangements with third parties
- Project Staff
 - Engineer
 - Real Estate
 - Risk Manager
 - Redevelopment Manager

The Issuer's Team (7)

- Verification Agent
- Appraiser
- Feasibility/Market Absorption Consultant
- Dissemination Agent
- Electronic and Printing Services
 - Document posting
 - Printing
 - Bidding

The Legal Team (Bond Counsel)

- Duty of loyalty to the issuer
- Issues validity and tax opinion
- Prepares closing certificates and memorandum and tax certificate
- Coordinates execution of closing documents and opinions
- Liaises with bond insurer (when applicable)
- Organizes closing transcript

The Legal Team (Disclosure Counsel)

- Prepares Official Statement
- Coordinates printing of Preliminary and Final Official Statements
- Conducts due diligence
- Delivers legal opinion to issuer and, sometimes, to underwriter(s)
- Continuing disclosure may apply

The Legal Team (Underwriter's Counsel)

- Prepares Bond Purchase Agreement
- Reviews and comments on Official Statement before printing
- Handles any necessary “blue sky” filings
- Attends closing
- Reviews compliance with Bond Purchase Agreement
- Delivers legal opinion

The Legal Team (Trustee's Counsel)

- Advises Trustee about the financing
- Reviews documents pertaining to Trustee's rights and obligations
- Delivers legal opinion
- In a default or workout situation, advises the Trustee on the exercise of its rights and remedies

The Legal Team (Issuer's Counsel)

- City Attorney
- County Counsel
- General Counsel

Other Outside Parties

- Rating Agencies: Rate debt issued by government entities
- Credit Enhancement Provider: Guarantees/insures sufficiency of revenues to pay bonds or provides security for the bonds (bond insurance, letters or lines of credit, liquidity facilities)
- Investor: Households, mutual funds and financial institutions (any buyer who can benefit from the tax exemption)
- Rebate compliance consultant: Assists issuer to comply with tax certificate
- Auditor: Reviews and confirms issuer's financial statements

Obtaining Professional Services

- Issue a Request for Proposal (RFP)
- Inquire with contacts in the industry regarding specific firms
- Research firms - search STO pool

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